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FARMERS' NEWSLETTER

Feed



July 78/F-5

Now--even as you are wrestling with weather and weeds and insects--is the time to start planning your marketing strategy for 1978 feed grain crops.

It's going to be as hard as ever this year to pick the right selling time to get top dollar.

Many farmers seem to prefer entering the market several times, rather than staking all on a single price objective.

Whatever your strategy, here are some of the things in the outlook you may want to consider.

Harvest Price Dip Should Be Followed by Quick Recovery

Prices generally are expected to weaken seasonally during harvest if feed grain crops are as large as July 1 indications suggest (192 million metric tons, only 5 percent under last year's record).

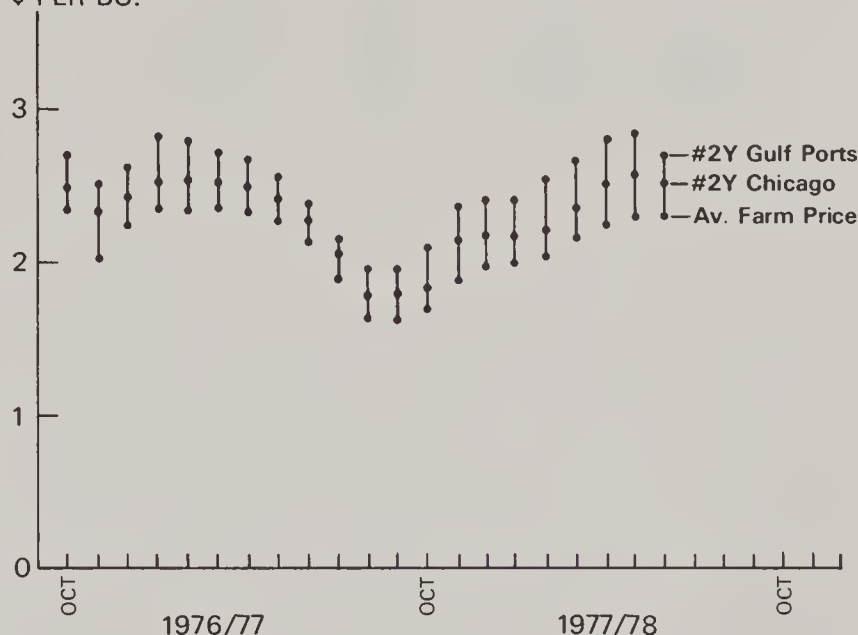
However, the loan program and the smaller crop will help cushion the harvest price drop and encourage a recovery by yearend.

With harvest prices expected to be stronger than last year, season-average prices for the 1978/79 marketing year also should be up.

For all of the coming 1978/79 season, figure on the farm price of corn averaging between \$2.10 and \$2.30 a bushel. That's better than the \$2.03 of the 1977/78 marketing year.

MONTHLY CORN PRICES

\$ PER BU.



Principal causes of the decline in corn prices from January to August last year was a record world grain crop in 1976 and prospects for another big harvest in 1977. Prices recovered when the Soviet harvest turned up short and when it appeared USDA would strengthen price support programs.

FEED GRAIN PRODUCTION

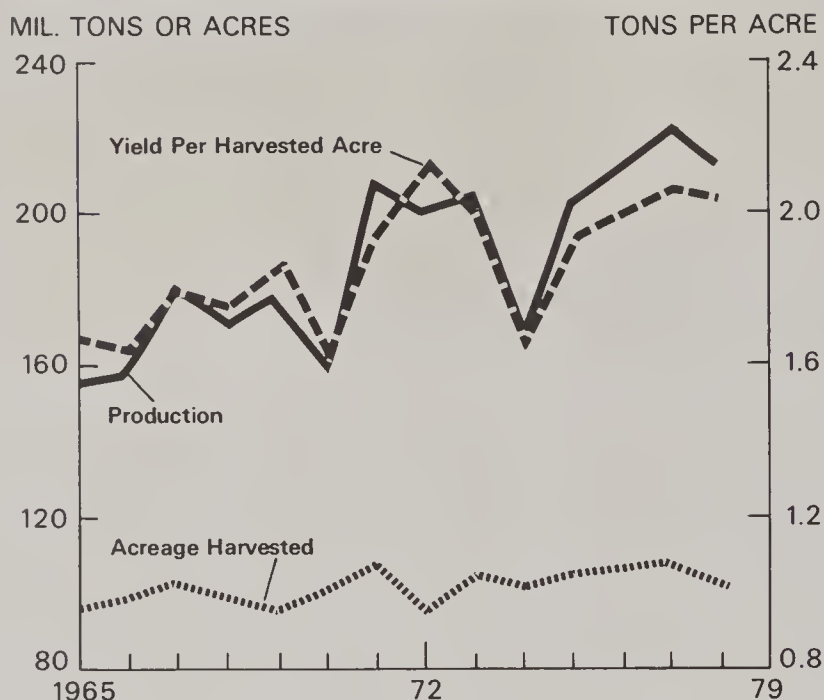
| Crop | Area harvested | | Yield per acre | | Production | |
|--------------------|----------------|-------------------|----------------|-------------------|--------------|-------------------|
| | 1977 | 1978 ¹ | 1977 | 1978 ¹ | 1977 | 1978 ¹ |
| | Thous. acres | | Bushels | | Mil. bushels | |
| Corn for grain ... | 70,006 | 68,184 | 91.0 | 90.1 | 6,371 | 6,145 |
| Oats | 13,447 | 11,951 | 55.6 | 53.2 | 748 | 636 |
| Barley ... | 9,490 | 9,116 | 43.8 | 45.0 | 416 | 410 |
| Sorghum . | 14,065 | 13,676 | 56.2 | (²) | 791 | (²) |

¹ Indicated. ² The first estimate of the sorghum crop will be made as of August 1.

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FEED GRAIN ACREAGE AND PRODUCTION



1978 BASED ON JULY 12 AGRICULTURAL SUPPLY AND DEMAND ESTIMATES REPORT.

Of course, there always is concern about the size of crop until it is in the bin.

On the positive side, subsoil moisture supplies were excellent in early July in most areas, and weekly reports of surface moisture supplies continue generally favorable.

However, because of planting delays this year, farmers are more concerned now about the danger of early frosts this autumn.

That danger probably has helped strengthen cash prices for corn this summer, and could give you a premium over harvest prices if you're willing to contract your crops before harvest.

Record Supplies Anticipated

We are anticipating very large beginning stocks for the new season--probably around 43 million metric tons, which is nearly half again as large as a year ago.

These stocks plus a 1978 production equal to the July 1 indications would make a feed grain supply of about 236 million metric tons, a little more than the record large supply for the 1977/78 marketing year.

Livestock and Poultry Prospects Signal Strong Domestic Markets

The outlook for livestock and poultry production is the thing to watch in sizing up domestic demand for your feed grains.

Right now that outlook is quite favorable as farmers continue to expand cattle feeding, pork production, and broiler output.

Continued growth in consumer buying power is lifting retail meat prices, which of course reflect slaughter animal prices and thus have a bearing on feeders' decisions to expand.

Cattle feeding in 1978/79 should rise about 2 percent from last year, even though beef production will be smaller because of reduced slaughter of cattle off grass.

Pork production likely will be up 5 to 7 percent and broiler production about a tenth.

In all, livestock and poultry feeding could well take around 123 million metric tons of feed grains during 1978/79, an increase of about 5 percent over last year.

FEED GRAIN SUPPLY AND DEMAND

| | 1977/ 78 ¹ | 1978/79 | |
|-------------------------------------|--------------------------|----------------|--------------------|
| | | Pro- jected | Range ² |
| | Million metric tons | | |
| Beginning stocks | 29.9 | 43.1 | |
| Production | 201.8 | 192.2 | ±14.5 |
| Imports | 0.3 | 0.3 | |
| Supply, total | 232.0 | 235.6 | |
| Feed | 117.6 | 123.3 | ±10.0 |
| Food, seed, and industrial uses . . | 18.5 | 18.9 | |
| Domestic use | 136.1 | 142.2 | ±10.0 |
| Exports | 52.8 | 51.5 | ±4.5 |
| Use, total | 188.9 | 193.7 | ±12.7 |
| Ending stocks | 43.1 | 41.9 | ±8.2 |

¹ Estimated. ² Chances are about 2 out of 3 that the outcome will fall within the indicated ranges.

Know the Global Situation

Besides keeping your eye on what's happening in local markets, watch the world situation, since exports account for more than a fourth of total use of U.S. feed grains.

Continued large livestock and poultry output by foreign buyers of U.S. grains points to another strong season for U.S. and world feed grain exports.

We could ship out roughly 52 million metric tons, give or take about 4-1/2 million. During the year ending September 30 our exports likely will be a record 53 million metric tons.

Several key areas to watch are Europe, the USSR, Japan, and the People's Republic of China.

Europe's grain crops were delayed by the same cool, wet weather that hit ours. However, crop production is currently projected to come fairly close to last year and import needs could remain about the same.

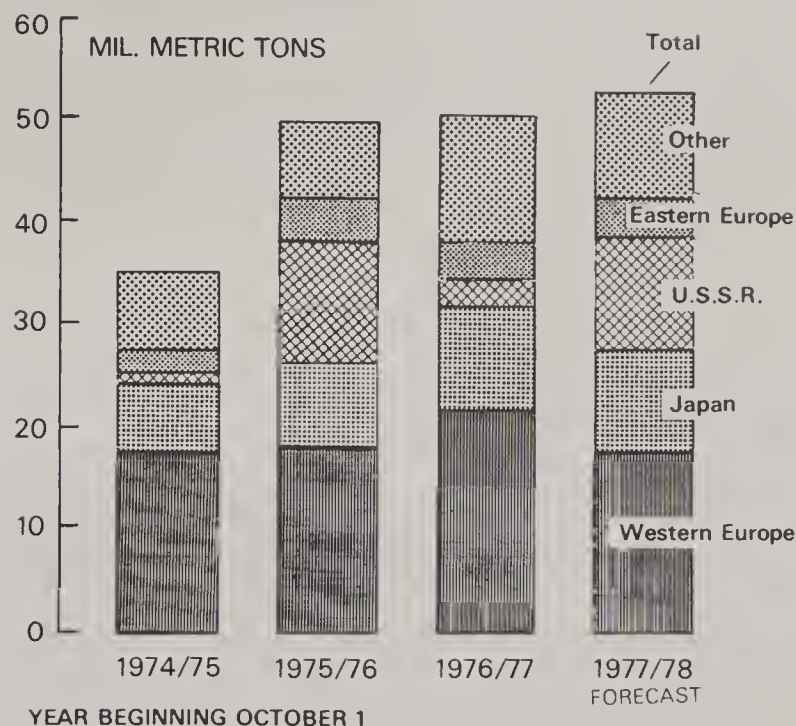
Be sure to watch the progress of the Soviet crop as well. Demand from the USSR is a major factor in our price structure.

Currently, Soviet crop production looks to be a little larger than last year, so they might be able to get by with less than the 11 million metric tons (433 million bushels) of U.S. corn they have bought for delivery in 1977/78. However, it's a long way until harvesttime in the USSR, so watch crop developments there carefully.

Also, whatever the outcome of their crops, the Soviets are committed to buy at least 6 million metric tons of U.S. corn and wheat each year until the US-USSR agreement expires in 1982.

Japan is an important and growing market for our feed grains. Japan's

U.S. EXPORTS OF FEED GRAINS



inventories of both cattle and swine are increasing. Japan produces almost no feed grains and thus has to import the bulk of its feed requirements.

The People's Republic of China (PRC) has better crop prospects this year than last. However, the PRC likely will import substantially more since its domestic production still falls short of needs.

Also, the PRC's improved foreign exchange and payments position should stimulate its foreign trade. Although not an active buyer of our feed grains, China's purchases of grain off the world market strengthen prices in general.

Government Programs: How They Fit In Your Sales Strategies

Farmers had committed 12.1 million acres to the feed grain set-aside and diversion programs by the end of May, the close of the signup period. If you have acreage in the programs, the loan and reserve options can add to your marketing options.

For example, the loan program can serve as an important financial tool--permitting you to borrow operating cash at a



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much lower rate than you can get at a bank. Thus, you won't be forced to sell your crop just to meet expenses. Remember, though, grain under loan can be marketed at any time.

Something to watch for in future weeks: USDA is considering opening the loan program for 1978 feed grain crops earlier than October 1, the date currently set. Also, the Secretary of Agriculture may decide to open the reserve program to 1978 crops, possibly with an earlier entry date than October 1.

If he does so, and you're in the 1978 loan program, you will have the option of putting your crop in the 3-year reserve. That would give you storage payments--and provide you with some additional financial support.

* QUALITY COUNTS *
*
* Storing grain on your farm? *
* If so, be sure it's kept in *
* good condition. Check often *
* for damage from insects, heat, *
* and so forth. You're respon- *
* sible for maintaining the qual- *
* ity of any grain you store in *
* the farmer-owned grain reserve *
* or under price support loans. *
*

Sell or Feed in 1978/79?

One of the key decisions every year for some farmers is which way to go with grain--to the elevator or the feedlot.

This year the stronger prospects for livestock and poultry prices, with no clear outlook for substantially higher grain prices, may mean more feeding.

Whether or not a stepped-up feeding program fits into your plans will depend on what you see as the long-term profit potential of expansion.

Keeping Abreast of Developments

Watch for the following reports over the next couple of months which will give you important information about supply and demand prospects:

- Crop production: August 10, September 12, October 11
- Supply and demand estimates: August 11, September 13, October 12
- Soybean stocks: September 20
- Grain stocks: October 23

After 4:00 p.m. EDT on the above dates, you can get highlights of each report by calling, toll-free: 800-424-7964.